

CHAPTER 1 OVERVIEW OF AHCCCS

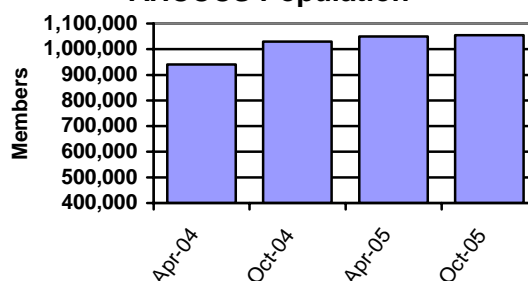
The Arizona Health Care Cost Containment System (AHCCCS) is Arizona's Medicaid program. As of October 1, 2005, AHCCCS was providing health care coverage to over 1,055,000 members.

AHCCCS has operated under an 1115 Research and Demonstration Waiver since 1982 when the original waiver was granted by the Centers for Medicare and Medicaid Services (CMS). During that period, a number of waiver extensions have been approved by CMS. AHCCCS currently has a five-year extension that will expire on September 30, 2006. AHCCCS will seek an extension of the waiver with CMS.

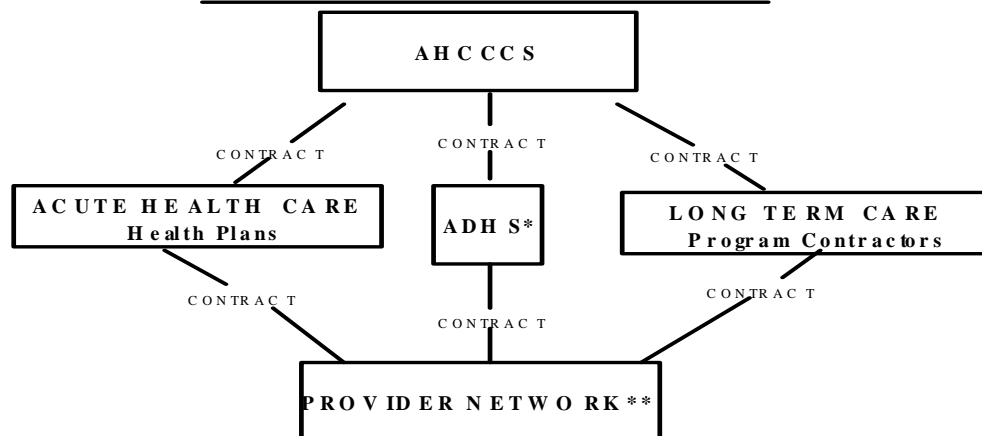
AHCCCS was created to defray the cost of indigent health care. Prior to 1982, Arizona was the only state in the nation that had declined federal Medicaid funds for low-income women, children, aged, blind, and the disabled. Rather than accepting federal funds for health care, the state retained a disjointed system of indigent health care provided by individual counties as they saw fit and could afford. In 1980, the counties turned to the Arizona Legislature for help. The Legislature responded and passed legislation in 1981 that created the Arizona Health Care Cost Containment System (AHCCCS). On October 1, 1982, AHCCCS became the first statewide Medicaid managed care system in the nation.

AHCCCS was created as a partnership between the state and private and public managed care Health Plans that mainstreamed Medicaid recipients into private physician offices. This arrangement opened up the private physician network to Medicaid recipients and allowed AHCCCS members to choose a Health Plan and a primary care provider. The plan and provider acted as gatekeepers managing all aspects of medical care for a member. AHCCCS Health Plans are paid an upfront, or prospective, monthly capitation amount for each member enrolled with the Health Plan. This capitation concept, although new to Medicaid in 1982, was patterned on the way many consumers paid for private health care insurance. Health Plans engage in a competitive bid process and receive regulatory oversight by the AHCCCS administration including operational and financial reviews of the Health Plans and contract monitoring to ensure quality of care.

**Chart 1A
AHCCCS Population**



**Chart 1B
EXISTING AHCCCS MODEL**



Behavioral Health services for acute care members are provided through the ADHS contract by Regional Behavioral Health Authorities. Program Contractors provide behavioral health services for ALTC members. Almost all Health Plans and Program Contractors provide dental services fee-for-service.

The program began on October 1, 1982, 11 months after the legislation was approved. The state contracted with a private administrator, McAuto Systems Group, Inc., who was unable to establish a provider network, provide adequate regulatory oversight, develop a uniform accounting system, or maintain a computer system capable of supporting a managed care model. Reimbursement was inadequate and many providers left the system. The turnaround began slowly in 1984 after the state ended the contract with McAuto and Governor Babbitt created a cabinet-level agency reporting directly to him.

From the beginning, AHCCCS has operated under an 1115 Research and Demonstration waiver granted by the Department of Health and Human Services. Under that waiver, the state can operate a statewide, managed care system and require all enrollees to enroll in a contracted Health Plan. After AHCCCS stabilized, the Arizona Legislature added long term care benefits through the Arizona Long Term Care System (ALTCS). The ALTCS program has been touted as a model for the nation mainly for its reliance on community based placements and support services in lieu of institutional care for the elderly, physically disabled and developmentally disabled populations. Unique among the states, ALTCS bundles all long term care services into a package (acute, behavioral health, case management, home and community-based services and institutional care) that is coordinated by various Program Contractors under contract with AHCCCS in all counties in the state. Like the acute care program, AHCCCS reimburses Program Contractors with a capitation payment for each enrolled member.

AHCCCS has undergone many changes since 1990. In 1991, the first managed care computer system in the nation was brought on-line after several years of intense effort. In addition to the major system changes, AHCCCS has implemented many new programs and initiatives.

In 1995, AHCCCS completed a five-year phase-in of behavioral health care services for the Medicaid program. In contrast to the long-term care program, behavioral health services for the acute care population are carved-out and delivered through an Intergovernmental Agreement between AHCCCS and the Arizona Department of Health Services (ADHS). ADHS contracts with Regional Behavioral Health Authorities (RBHAs) and Tribal RBHAs to deliver behavioral health services to members.

In 1995, AHCCCS launched a major quality improvement initiative designed to test new ways to measure quality of care in a managed care environment.

In 1998, AHCCCS implemented the State Children's Health Insurance Program (KidsCare) with 75 percent federal funding for uninsured children.

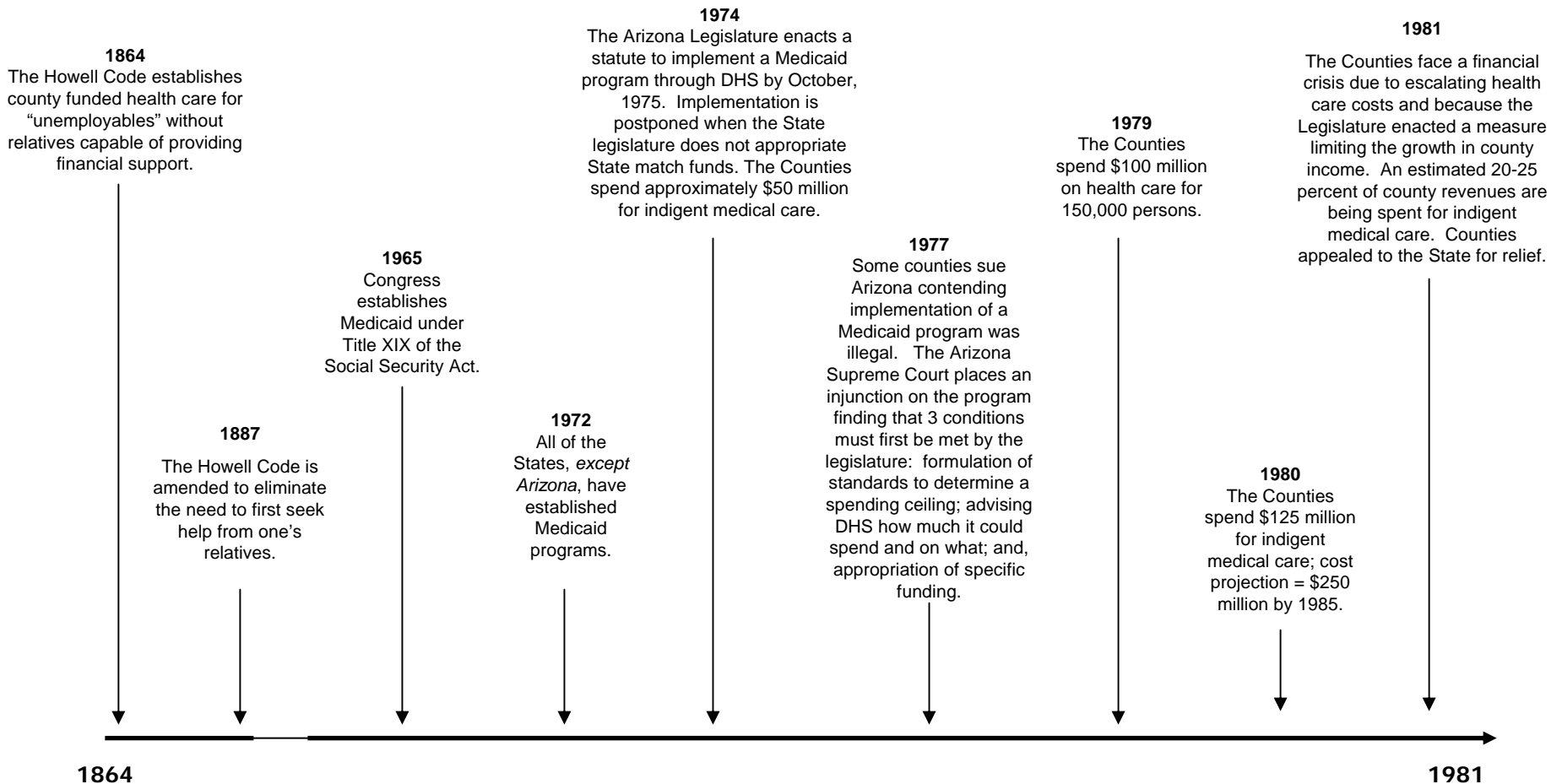
In November 2000, Arizona voters approved Proposition 204, which expanded income limits to 100 percent of the Federal Poverty Level (FPL) and added over 88,000 new people to the AHCCCS rolls in 18 months.

In January of 2003, parents of KidsCare and Medicaid enrolled children with incomes between 100 percent and 200 percent FPL became eligible under a HIFA II waiver.

AHCCCS has evolved into a mature and well-respected health care system. Many independent studies have praised the program. In fact, in 2002, the Nelson A. Rockefeller Institute of Government called AHCCCS a "smashing success" and cited Arizona as the "gold standard" for the nation as a model purchaser of health care services. In 2002, the Auditor General also commented that AHCCCS "has been able to effectively manage member growth." Also in 2002, of ten states studied, "only Arizona has met the standards required for prudent purchasing of Medicaid Managed Care" (Center for Health Care Strategies 2002). According to the Lewin Group, in 2003, pharmacy costs in the AHCCCS Medicaid program were found to be the lowest nationally. Most recently in 2005, the Health Subcommittee of the U.S. House Energy and Commerce Committee looked to Arizona as it considered its plan to reform Medicaid, and the Medicaid Commission, appointed by the Bush Administration, invited AHCCCS to present as a leader in best-practices.

Exhibit 1

Health Care in Arizona before AHCCCS



Arizona's AHCCCS Years

1981

On November 18, Governor Bruce Babbitt signed into law Senate Bill 1001, which establishes AHCCCS as a program within DHS. AHCCCS is authorized to deliver prepaid capitated health care statewide to Title XIX eligible persons and State-funded indigent persons. AHCCCS operates as a prepaid, capitated managed care demonstration project under Medicaid.

1982

In May, DHS contracts with McDonnell Douglas Automation System Group, Inc. (McAuto) to administer the AHCCCS program.

1982

Three year demonstration waiver is approved by the Centers for Medicare and Medicaid Services (CMS) enabling the implementation of the AHCCCS acute care program on October 1, 1982.

1984

AHCCCS becomes an independent State agency (previously a Division of the Department of Health Services).

1984

Arizona terminates the McAuto contract and takes over the administration of AHCCCS on March 16.

1985

AHCCCS demonstration waiver extended by CMS for two additional years through September 30, 1987.

1987

Waiver request includes proposal for Arizona Long Term Care System (ALTCS). ALTCS proposal is approved by CMS which also approves demonstration waiver for an additional year.

1988

Beginning January 1, 1988, small employers in four counties are allowed to purchase medical coverage for their employees from AHCCCS Health Plans through Healthcare Group. AHCCCS receives CMS approval of waiver through September 30, 1993 (5 years).

1988

ALTCS program implemented on December 19, 1988 for the developmentally disabled and January 1, 1989 for the elderly or physically disabled.

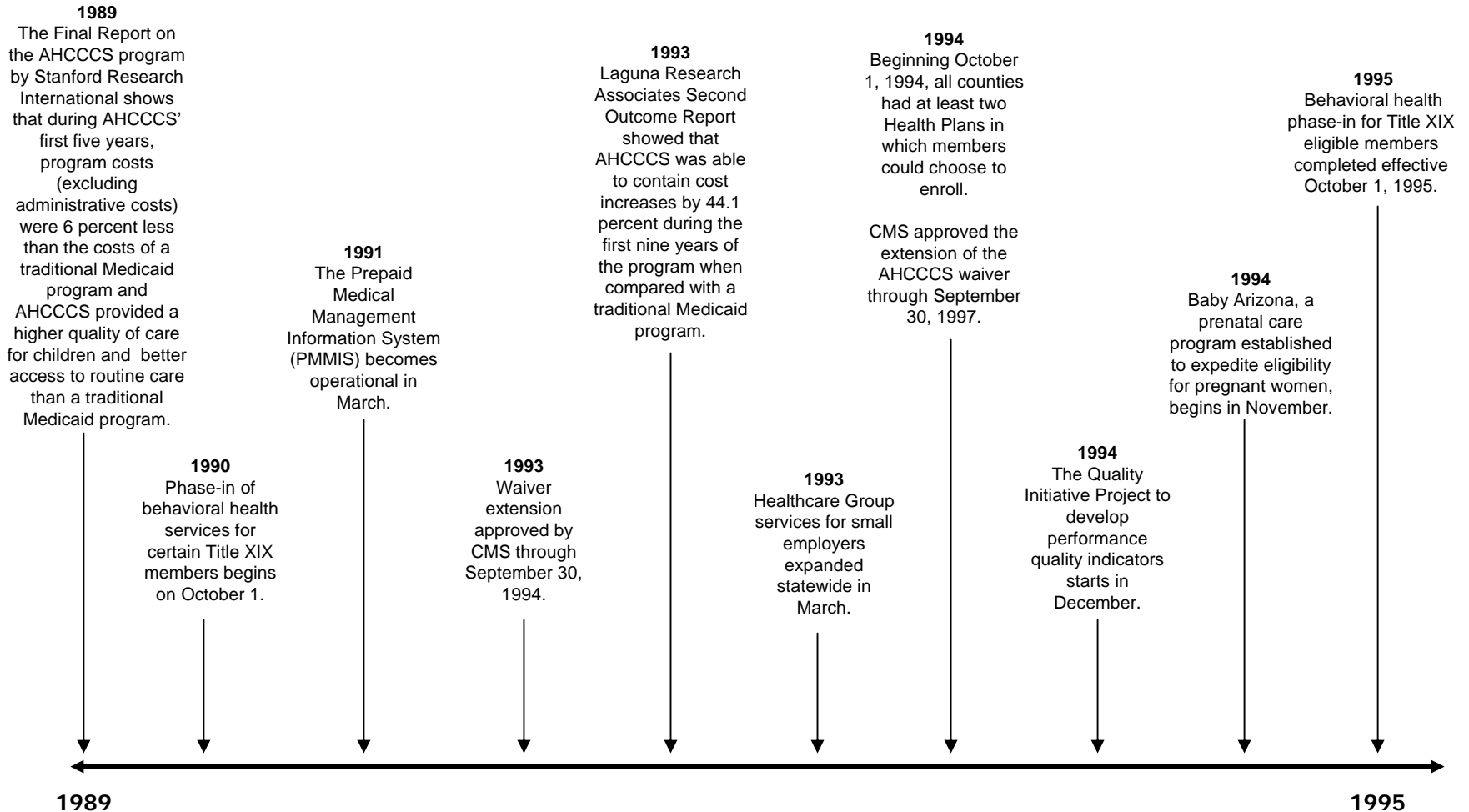
1989

A survey commissioned by the Flinn Foundation showed that the overwhelming majority of AHCCCS members were completely satisfied with the program and that only 5 percent of members were dissatisfied with the care they received.

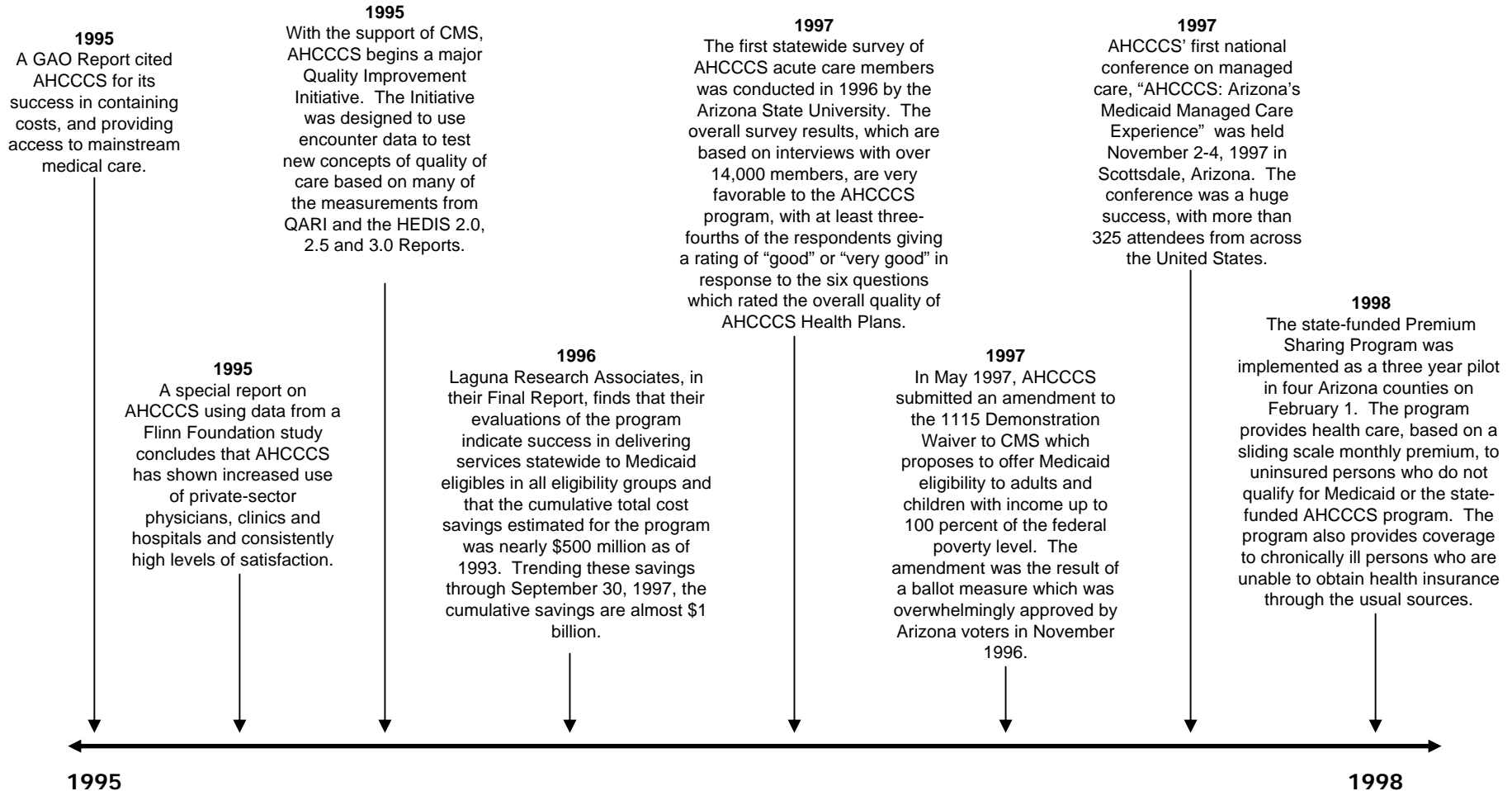
1981

1989

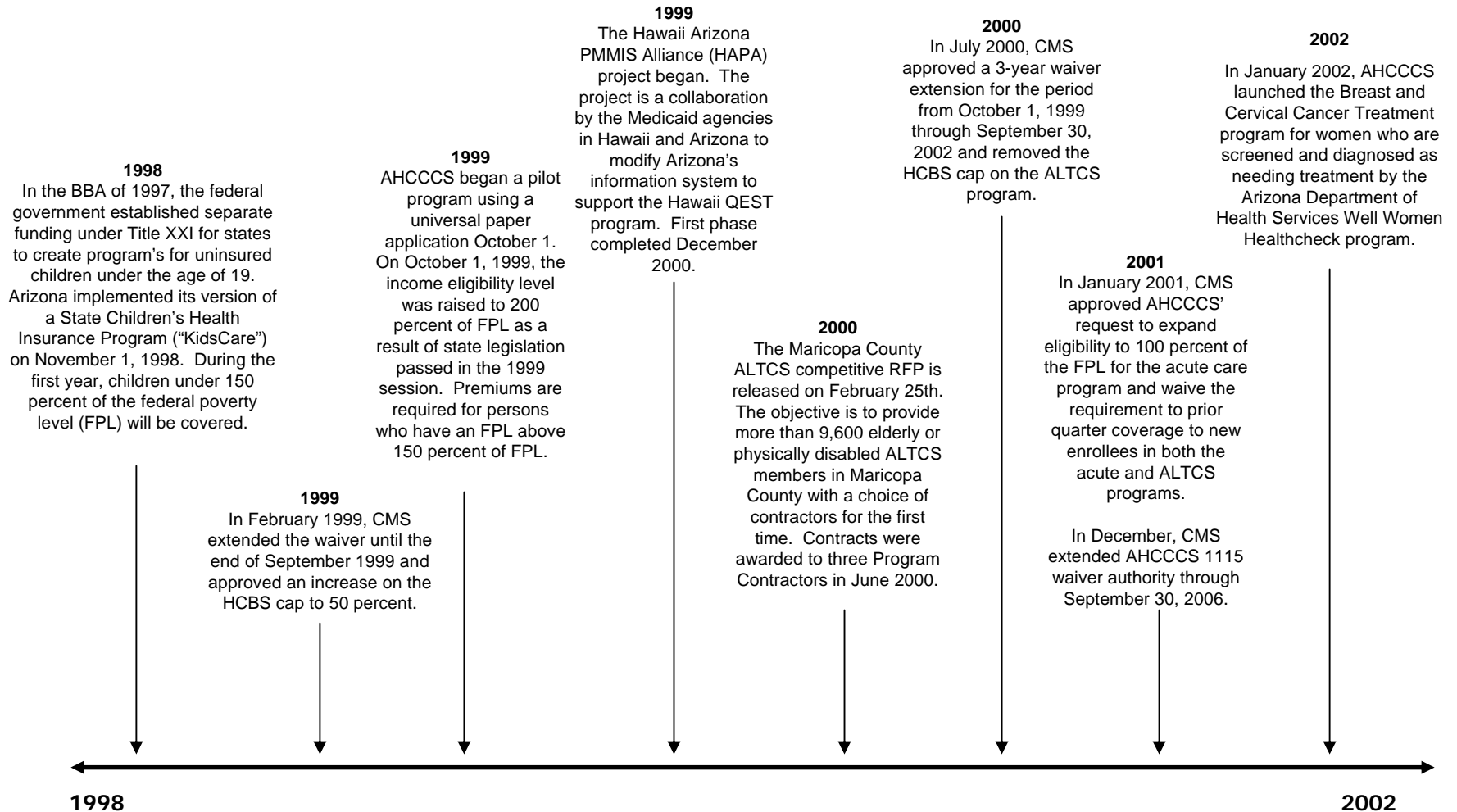
Arizona's AHCCCS Years



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2003

On January 1, 2003 eligibility for parents of SCHIP children with household income up to 200% FPL was established.

2003

AHCCCS Customer Eligibility System (ACE), the new eligibility system for ALTCS, began to be rolled out in 2003. ACE is an interactive interviewing system.

2004

On July 1, 2004, AHCCCS began reimbursing outpatient hospital services using a hospital-specific cost-to-charge ratio in an effort to control hospital charges.

2004

Maricopa county long term care program contracts were extended to September 30, 2006, to allow the alignment of all long-term care program contractors bid cycle across the state.

2005

Implementation of the AZ 211 website for health and human services information and web links

